



Annex 2

EU sugar reform – an uphill battle for survival for the ACP
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*A personal perspective by Mrinal Roy**

Whatever its impact may be within Europe, the reform of the EU sugar regime will seriously undermine the sugar industry - the core agricultural activity - in ACP Sugar Protocol countries, and will harm the sustainable development of their economies.

The 36% cut in EU sugar prices over four years will result in an annual loss of revenue of about €265.3 million for the 18 ACP developing countries of the Sugar Protocol (SP), who are small, vulnerable, landlocked or island economies. The collective shortfall in revenue for the SP countries will amount to some €1.77 billion by 2014/15, at the end of the new sugar regime.

Such a huge fall in revenue will thwart the sugar industry's multifunctional role in ACP states - in rural development, in environmental protection, in assuring food security (most SP states are Net Food Importing Developing Countries), in its capacity to produce biofuel, and generally to act as an engine of growth.

Furthermore, the ACP are made to bear a heavier and unfair burden of the reform, as the reduced price payable on an ex-mill basis to the EU sugar beet sector is applicable on a cif basis for the ACP – which means these states have to bear rising transportation costs. As sugar exports can account for up to 25% of Gross Domestic Product, the overall impact will blunt the thrust of their development efforts and their ability to meet their Millennium Development Goals, as well as threaten the livelihoods of millions who depend on the sugar cluster in ACP countries.

Adapt or perish

Conscious of the writing on the wall for the sugar regime, the ACP States anticipated the reforms by investing considerable sums in preparing their sugar industries for a more competitive environment. In the case of Mauritius, the industry invested heavily to modernise and rationalise its operations according to various national sugar sector Strategic Plans - a costly exercise which has been totally underwritten by the stakeholders of the industry from the predictable income flows of the ACP-EU sugar preferential arrangements. Mauritius has already submitted its reform adaptation Action Plan to the Commission and other ACP countries are doing so shortly.

There is however deep apprehension among the ACP countries at the critical delay of the EU in committing commensurate funds to underwrite these ACP Action Plans. Against the background of such a vast fall in their revenue, the Sugar Protocol countries will not be able to adapt to the reform without the urgent support of adequate funds from the EU.

Equity of treatment

In the final sugar reform agreement reached at the November 2005 Council meeting, an extensive process of trilateral consultations with Member States enabled the UK Presidency and the Commission to identify and comprehensively address the specific concerns of each Member State. Additional funds were committed in the quest to reach a Council agreement.

But no similar consultation process was adopted for the ACP who, through the Sugar Protocol, are equally stakeholders in and parties to the EU sugar regime.

Although the ACP assiduously lobbied the Member States, the Commission and the EU Parliament on their specific concerns, these received only limited attention in this negotiating process, which remained essentially Eurocentric.

The ACP are the only stakeholders of the EU Sugar Regime whose specific adaptation funding requirements have not been established nor clearly earmarked by the EU through a comparable process of proactive dialogue. There is need for equity and parity of treatment towards long-standing and reliable stakeholders in the EU sugar regime.

It is now vital that the EU make a firm and bankable commitment of adequate and specific funds to underwrite the ACP multiannual adaptation strategy, ahead of the exercise of agreeing on detailed budgetary allocations for the 2007-13 Financial Perspectives.

Adequacy of EU funds

The sum of €40 million for 2006 earmarked by the EU and the sum of €190m per year indicated in the context of the 2007-2013 financial perspectives for the whole of the 18 ACP beneficiary countries of the Sugar Protocol are largely inadequate to cover the costs of the Action Plans, which were estimated by independent research carried out by at least one EU Member State at some €500 million per year of the adaptation period.

It should be noted that the EU has committed some €8 billion in favour of EU beet growers and allocated €2 billion in 2007-2013 to the DOMs, who produce 280 000t annually under similar topographical and geographic conditions as the Sugar Protocol countries who export 1.3 million tonnes per year to the EU.

Now that the ACP countries have started to submit their adaptation strategies, the EU support must urgently move into a delivery and implementation mode, with front-loaded funds disbursed on a fast-track basis as soon as possible.

Options for diversification

It should be clearly stated at the outset that diversification options for the agricultural sector in ACP states are, in most cases, non-existent. The experience of numerous initiatives taken by the ACP countries to diversify their agriculture has shown that, as in the case of the DOMs, no crop can adequately replace sugar cane, owing essentially to inherent climatic constraints in these geographic regions. Most of the ACP countries are annually subjected to the threat of cyclones,

and sugar cane, opted for by rational choice, has consistently been found to be the most suitable crop to adapt to these extreme conditions.

Mauritius has had relative success in judiciously investing part of the its sugar export revenue to broaden its economic base through diversification into manufacturing, tourism and the service sector, but it is nevertheless vital for the country to maintain a core agricultural activity over its arable land in order to anchor rural development, and protect the environment and the ecosystem.

The presence of an organised sugar cane sector and lush green planted fields also add to the attraction of Mauritius and other ACP countries as a prime tourist destination. A similar rationale justifying the choice of sugar cane prevails in the other ACP States.

However, Mauritius has since 1978 diversified its sugar production into a unique range of 18 value-added cane special sugars produced according to HACCP norms, and currently markets some 75 000 tonnes to 33 countries across the world including the US and 14 countries within the EU - its main market. It is by far the world leader in this segment of the sugar market.

As part of its Action Plan, this marketing strategy will also aim at tapping other value-added segments of the EU sugar market to shore up the significant fall in export revenue.

Will current world prices last?

In the minds of the uninitiated, the current high world prices of some 17.50c per lb for bulk raw sugar (about \$386 per tonne fob) is perceived as a viable long-term sales option for the ACP. Although world prices are currently at their highest level since 1981, this is principally due to present fundamentals which project a world market trading imbalance of some 2 million tonnes.

In absolute terms, the present world price is still lower than the ACP price of \$564 per tonne fob in 2006/07 in the context of the reform, and in constant terms will be only marginally higher than the estimated ACP price of \$370 per tonne fob in 2009/10 after the 36% price cut. It would only bring a temporary benefit to those ACP with current surplus availabilities of sugar.

It should be highlighted that owing to the bearish weight of expanding Brazilian exports - from some 1.3 million tonnes in 1990 to more than 16 million tonnes presently - average world prices have fluctuated between 6.14 to 9.99c /lb (\$135 - \$220 per tonne fob) during the 1998-2005 period.

The cognoscenti in the sugar trade forecast that once Brazil and other origins with the potential to expand production make good the present imbalance, world prices are expected to subside to uneconomic levels in the medium term, in line with the generally bearish long-term world price trends.

Projections carried out by the International Sugar Organisation show that Brazil's exports will continue to grow to reach some 23 million tonnes by 2010, in spite of pursuing in parallel its ethanol production expansion programme. The current bull run is thus a market distraction from the ACPs long term interests.

At the time of the Sugar Protocol negotiations in 1974/75 world prices had reached a record £674 per tonne, but the ACP countries deliberately opted for a significantly lower price of £150 per tonne on the assurances of the long-term guarantees of market access and predictable trade-related income flows enshrined in the Sugar Protocol to assure the socio-economic sustainability of their economies, in the knowledge that as a general rule no sugar industry in the world can sustain its long term viability on fluctuating and generally uneconomic world price levels.

The long history of bearish prices since then has systematically validated this judicious choice.

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